AGENT

MORTGAGE HACKS

Playbook

Where Entrepreneurs Thrive

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Welcome to the Mortgage Hacks Playbook

In Q4 of 2022, the National Association of Home Builders stated that home buyer sentiment hit its lowest level since 2011. When asked to identify their top reason for this decline in sentiment, consumers cited the current rising interest rate environment along with the specter of continued rate increases.

In order to best serve their customers, real estate agents need to assess their current lender partners' effectiveness to operate in this higher rate environment. Now is the time to get educated on the myriad of programs available designed to assist both buyers and sellers who still wish to transact at the most favorable terms.

For most real estate agents and consumers, the term “mortgage” conjures an image of a fixed rate, 30-year loan. When the real estate market is good that may be the only type of loan that even gets discussed. Additionally, buyers often think that a low fixed interest rate is the only answer to their affordability questions, but that simply is not true. There are always many products and tools available to help borrowers with affordability. Unfortunately, these products often only get discussed during challenging times. We believe that as professionals we should always present the total picture to our clients.

This Playbook is designed to explain several mortgage programs available today as well as some hacks to help those with current mortgages pay less over time.

Passengership v. Partnership

When housing markets shift, real estate agents' businesses become uncertain. This is because the math that previously governed their conversion rates, expenses, and revenues changes. Their business stays uncertain until they find their new numbers based on the new market conditions. During this period it is vital that their vendors move from passengership to partnership in order to help them thrive through the shift.

Passengership

When the real estate market is strong it almost feels natural for vendors and allied resources to become passengers. Imagine the transaction as a school bus and the real estate agent is the bus driver. Once a contract for a buyer or seller is signed the seats begin to rapidly fill up. Home inspectors, lenders, title executives, lawyers, escrow officers, movers, homeowners insurance companies, construction contractors, and even home improvement stores all climb aboard. Suddenly, all of these service providers are needed by the consumer, and each of them gain a new customer.

However, none of this is possible without the real estate agent having lead generated and converted the lead into a transaction.

In a strong market that's okay because there is enough business transacting that everyone feels happy and simply getting good service and kindness from those vendors is enough. But then the market shifts and the activities that it takes to secure a buyer or a seller double or even triple, there are less total transactions to be done, and the cost of leads and appointments goes up. It is at this moment that their vendors need to move from passengership to partnership.

Passengership v. Partnership

Partnership

When the market changes all of their partners must realign their value propositions to help support the acquisition of new customers and provide enhanced services to existing customers. They can do this in the following ways:

1. Provide market specific information and marketing support that aids the real estate agent in better converting buyers and sellers to clients and keeping in touch with current clients.
2. Provide direct financial support to a real estate agent in a RESPA friendly and compliant way.
3. Create new consumer focused programs that match the needs of the market and cause more transactions to happen today.
4. Provide leads and appointments to the real estate agent with motivated buyers and sellers.

Although the list above relates to all of the ancillary services, mortgage rates are at the forefront of this market change so the rest of this playbook will focus on some of the programs and hacks that real estate agents can use to turn mortgage programs into their most timely and powerful value add.

Consumers think the interest rate is the only solution to affordability, but that's not true. There are a lot of tools available to help. Unfortunately, these only come out during challenging times. We believe as professionals that we should always present the total picture to our clients.

Welcome to Mortgage Hacks.

Thriving in the Mortgage Market of the Moment

STEP 1: Understand the Market of the Moment

Understand the opportunities and the limitations of the current market.

STEP 2: Understand the Current Mortgage Solutions Available

The most commonly used mortgage solutions include 30-year or 15-year fixed conventional loans and jumbo loans. However, there are many products for a real estate agent to familiarize themselves with.

STEP 3: Understand Mortgage Product Hacks

Lenders are constantly creating and changing mortgage programs to match the mortgage market of the moment. Without understanding what products are available, it is difficult to consult a client to make the best decision.

STEP 4: Understand Mortgage Hacks for Current Homeowners

Understanding how to help people pay less over time is a significant value add to any homeowner that has a mortgage.

STEP 5: Know the Mortgage Products your Lenders Offer

Not all lenders offer all programs. It is vital to understand which products your lenders offer so you know which clients should be referred to the best lender for them.

STEP 6: Market and Advertise Mortgage Products and Hacks

Once a real estate agent has identified a financial problem that can be solved at scale with a mortgage product, advertising that solution as a MOFIR is a great way to find new motivated clients.

STEP 7: Market Mortgage Products and Hacks to your Database

A real estate agent's database is enriched each time a real estate agent can provide specific information that makes their database's lives better. Saving people money over time will always result in a high value touch.

STEP 1: Understand the Market of the Moment

Being the best fiduciary possible begins with being the best local economist of choice for those seeking information about the marketplace. Real Estate agents perform at their best when they are either solving a problem that a customer has or presenting an opportunity to a customer that can better their life. Both of these things are only possible when real estate agents have a deep understanding of their market dynamics and the real problems that need to be overcome for customers to transact.

Just Ask Them

The easiest way to understand the problems that buyers and sellers are having is to simply speak to as many of them as possible.

Asking questions like

"What concerns you most right now about buying a home?"

"As you think about selling your property, what is your biggest fear?"

After asking enough people questions like these the answers will begin to match each other. When the same answer keeps coming up, that is a problem worth solving at scale.

Data is Abundant

There are many surveys conducted on both buyer and seller sentiments that can help real estate agents determine the most pervasive problems that their clients may be facing. One of these sources is the National Association of REALTORS. Use the NAR website and click on the "research and statistics" link to read the reports that they produce.

Local and National Events

Market Centers, mortgage and title companies, and KWRI all host regular events that focus on uncovering the largest challenges that buyers and sellers are facing. Gary Keller's annual Vision Speech provides the timeliest market statistics and commentary on how the buyers and sellers experience is evolving. Past years' speeches can be found on YouTube and Connect.

STEP 2: Understand the Current Mortgage Solutions Available

When we talk about financing a home, we traditionally think of a 30-year fixed rate mortgage. In good markets that is the only mortgage product often discussed and widely accepted as the mortgage instrument to use. According to Washington-backed mortgage-guarantor Freddie Mac, 90% of homeowners still choose a 30-year fixed mortgage. This is largely because of the way that mortgages have evolved over time.

The large scale concept of mortgages first surfaced in England and began moving west around 1190. The wave of immigrants into the United States in the 1800s and 1900s accelerated the need for mortgages due to lack of affordable housing. Initially, mortgages were given on a 5 year repayment plan. The payments collected were interest only. At the end of the 5th year, the entire principal balance was due. This type of loan is commonly referred to as a balloon note and is rarely used by financial institutions to finance housing today.

Things changed dramatically after the Great Depression. Many banks were undercapitalized and many consumers had little to no liquidity. As part of Roosevelt's New Deal, the federal government created the **Federal Housing Administration (FHA)**. This new agency was authorized to insure home mortgage loans made by banks and other private lenders. In turn, this encouraged banks to provide more loans to prospective borrowers.

The FHA helped to create the mortgage solutions you see available by creating the following systems:

1. Quality standards
2. Lower down payment requirements
3. 15-year and 30-year loans
4. Amortization periods

The mortgage industry and the products it offers continue to evolve and change to meet the needs of the marketplace.

Understanding these programs is vital for a real estate agent to perform the highest level of fiduciary.

Opening a conversation with a buyer or seller to help them get the most out of the mortgage products offered today might look like this:

"When the real estate market changes, we need mortgage products that provide more options. We call those hacks. What I would like to do is go through some potential hacks that will help you get through these times and set you up to come out on top financially".

STEP 3: Understand Mortgage Product Hacks

Get familiar with several mortgage products that may be beneficial to clients in the market of the moment.

1. Buydowns
2. 5/1 ARM
3. 15-year Mortgage
4. 40-year Mortgage
5. Lock and Shop through Keller Mortgage
6. Seller Financing
7. Trust Deed/Wrap Around Mortgage
8. Homebuyer Assistance Programs

1. Buydowns

There are a few common buydown products that clients can take advantage of, including an Interest Rate buydown, 3-2-1 buydown and a 2-1 buydown. While the following examples reference sellers paying for the buydowns specifically, buyers or lenders can also pay for interest rate buydowns.

Interest Rate Buydown

How it Works

A rate buydown is a way to pay for a lower interest rate by purchasing discount or mortgage points.

Value to Clients

Buydowns can be a benefit to both buyers and sellers. Sellers get a competitive advantage and buyers get to make a one-time payment to reduce their interest rate for the length of the loan.

A common misconception is that 1% = 1 point. In reality, approximately 1 point = 0.25% of the mortgage rate. **Buying down the rate by 1 point costs 1% of the loan amount.**

Here is how the math works on a 30-year mortgage

	No Points	1 Point	3 Points
Purchase Price	$500,000	$500,000	$500,000
Down Payment	5%	5%	5%
Quoted Interest Rate	7%	7%	7%
Interest Rate w/buydown	7%	6.75%	6.25%
Monthly Payment	$3,160	$3,081	$2,925
Total Interest over life of loan	$662,667	$634,103	$577,876
Monthly Savings	**N/A**	**$79**	**$235**
Interest Savings	**N/A**	**$28,564**	**$84,791**
****Buydown Cost to Seller**	**N/A**	**$4,750**	**$14,250**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

**Can be paid by buyer, seller or lender.

3-2-1 Seller Buydown

How it Works

A 3-2-1 buydown is a concession to the buyer that reduces the buyer's interest rate and monthly payment for the first three years of homeownership making the home more affordable. In the below example, the seller agrees to finance three years of a lower interest rate for the buyer.

1. The interest rate for Year 1 is reduced by **3 percentage points**
2. The interest rate for Year 2 is reduced by **2 percentage points**
3. The interest rate for Year 3 is reduced by **1 percentage point**
4. Year 4-life of loan are subject to the original interest rate

The cost to the seller is based on the note rate minus the 3% for the first 12 months and the same for the 2% (13-24 months) and the 1% (25-36 months). To get the total cost from the seller, add all of the differences in figures from the original monthly payment.

Value to Sellers

This could be a great negotiating tool because a greater percentage of homes listed for sale in today's market are seeing price reductions. A 3-2-1 buydown makes the house more affordable to a wider range of buyers who may have otherwise been priced out of the market.

Value to Buyers

Buyers get three years (3-2-1) to absorb the impact of the higher payment and can often finance a higher mortgage amount. It has a much greater impact on the buyer's monthly payment than reducing the list price of the home.

In the below graph, you will notice how a 3-2-1 buydown versus a price reduction benefits both the seller and buyer.

3-2-1 Seller Buydown versus Price Reduction on a 30-year Mortgage

	No Buydown/ Price Reduction	$25,000 Price Reduction	3-2-1 Seller Buydown Year 1	3-2-1 Seller Buydown Year 2	3-2-1 Seller Buydown Year 3
Purchase Price	$500,000	$475,000	$500,000	$500,000	$500,000
Down Payment	5%	5%	5%	5%	5%
Interest Rate	7%	7%	4%	5%	6%
Total Monthly Payment	$3,160	$3,002	$2,268	$2,550	$2,848
Monthly Savings	**$0**	**$158**	**$892**	**$610**	**$312**
****Buydown Cost to Seller**	**$0**	**$25,000**	**$21,781**	**N/A**	**N/A**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

**Can be paid by buyer, seller or lender.

Over 10 years that would be a savings of $21,768 for the buyer.

2-1 Seller Buydown

How it Works

A 2-1 buydown is a concession to the buyer that reduces the buyer's interest rate and monthly payment during the first two years of homeownership, making the home more affordable. In the below example, the seller agrees to finance two years of a lower interest rate for the buyer.

1. The interest rate for Year 1 is reduced by **2 percentage points**
2. The interest rate for Year 2 is reduced by **1 percentage point**
3. Year 3-life of loan are subject to the original interest rate

The cost to the seller is based on the note rate minus the 3% for the first 12 months and the same for the 2% (13-24 months) and the 1% (25-36 months). To get the total cost from the seller, add all of the differences in figures from the original monthly payment.

Value to Sellers

This could be a great negotiating tool because a greater percentage of homes listed for sale in today's market are seeing price reductions. A 2-1 buydown makes the house more affordable to a wider range of buyers who may have otherwise been priced out of the market.

Value to Buyers

Buyers get two years (2-1) to absorb the impact of the higher payment and can often finance a higher mortgage amount. It has a much greater impact on the buyer’s monthly payment than reducing the list price of the home.

In the below graph, you will notice how a 2-1 buydown versus a price reduction benefits both the seller and buyer.

2-1 Seller Buydown versus Price Reduction on a 30-year Mortgage

	No Buydown/ Price Reduction	$25,000 Price Reduction	2-1 Seller Buydown Year 1	2-1 Seller Buydown Year 2
Purchase Price	$500,000	$475,000	$500,000	$500,000
Down Payment	5%	5%	5%	5%
Interest Rate	7%	7%	5%	6%
Total Monthly Payment	$3,160	$3,002	$2,550	$2,848
Monthly Savings	**$0**	**$158**	**$610**	**$312**
****Buydown Cost to Seller**	**$0**	**$25,000**	**$11,072**	**N/A**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

**Can be paid by buyer, seller or lender.

Over 10 years that would be a savings of $11,064 for the buyer.

Limits for "Interested Party Contributions"

Fannie Mae, Freddie Mac, FHA, & VA all set limits on buydowns for conforming loans.

The graph below shows the limits as they stand today.

Property Type	LTV/CLTV Ratio	Maximum IPC	Approx. Max Rate Buydown (1% buydown = 0.25% rate reduction)
Principal or Second Home	Greater than 90%	3%	0.75%
	75.01% to 90%	6%	1.5%
	75% or less	9%	2.25%
Investment Property	All Ratios	2%	0.5%

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

2. 5/1 ARM

How it Works

A 5/1 ARM is a type of adjustable rate mortgage loan (ARM) with a fixed interest rate for the first 5 years. After the first 5 years, the 5/1 ARM switches to an adjustable interest rate for the remainder of the life of the loan.

1. The interest rate for Years 1-5 is a fixed rate. Generally, these are offered at a lower rate than a traditional fixed-rate mortgage.
2. Years 6-the life of the loan are subject to change every year. Rates are subject to change based on the state of the economy and cost of borrowing. Usually increases are capped at a certain rate.

Value to Buyers

An ARM can be a smart financial choice for buyers who are planning to keep the loan for a limited period of time and/or can afford any potential increases in their interest rate over time.

Other common Adjustable Rate Mortgages include:

1. 7/1 ARM: fixed for 7 years, variable every year thereafter based on the loan agreement
2. 7/6 ARM: fixed for 7 years, variable every 6 months thereafter

3. 15-year Mortgage

How it Works

A 15-year mortgage is beneficial for those that want to build equity in their home quickly and pay off their loan faster. The rate on a 15-year mortgage is typically lower than a 30-year mortgage. Because the payments are higher on the 15-year mortgage, buyers will be able to get rid of private mortgage insurance (PMI) sooner by reaching the 20% equity threshold more quickly.

30-year versus 15-year Loan

	30-year Mortgage	15-year Mortgage
Purchase Price	$500,000	$500,000
Down Payment	5%	5%
Interest Rate	7%	6%
Monthly Payment	$3,160	$4,008
Total Interest over life of loan	$662,667	$246,498
Buyer Savings on Interest	**N/A**	**$416,169**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

If you compare two loans on the same amount amortized at 15 and 30 years, the day you pay off the 15 year note you'd still owe over 72% of the principal on the 30-year note. 15 year notes accelerate equity build-up and minimize interest paid. 30 year notes hit a sweet spot for monthly affordability, hence their popularity.

4. 40-year Mortgage

How it Works

Like a traditional 15 or 30 year mortgage, there is an option to take out a 40 year mortgage. An extended mortgage creates a lower monthly payment despite the interest rate being higher than the prevailing rate for a 30 year mortgage. Although this lowers the monthly payment to be more affordable, the borrower pays more interest over the life of the loan.

30-year versus 40-year Loan

	30-year Mortgage	40-year Mortgage
Purchase Price	$500,000	$500,000
Down Payment	5%	5%
Interest Rate	7%	7.5%
Monthly Payment	$3,160	$3,125
Total Interest over life of loan	$662,667	$1,025,401
Buyer Monthly Cash Flow Improvement	**N/A**	**$35**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

40-year mortgages are rare, may not be offered by most lenders and may have less favorable terms.

5. Lock and Shop through Keller Mortgage

How it Works

Keller Mortgage allows borrowers to get pre-approved for a loan and lock in their rate for up to 120 days while they shop for a property. Borrowers have the option to reset their interest rate to current market rates (60 day lock period) once the borrower has an executed purchase agreement and is within 60 days of closing. This is available for fixed-rate conventional loans for primary and secondary homes.

Most lenders will offer a similar product.
Be sure to ask your lender partners about what they offer for rate locks.

6. Seller Financing

How it Works

When a home is sold through seller financing, the seller becomes the lender, which would typically be a bank traditional mortgage lender. The note is made between the seller and buyer.

Value to Sellers

Seller financing can offer several benefits to the seller who owns their property outright or can pay off the remainder of their existing mortgage with a down payment from the buyer. Some of the benefits include reduced closing costs, capital gains tax savings, and the ability to offload insurance, taxes, and maintenance.

Value to Buyers

Buyers benefit from the ability to purchase a home without being approved through a traditional lender, flexible terms, and lower closing costs.

Other common Seller Financing agreements include:

1. **Land Contract:** An agreement to purchase a piece of real estate that involves buyers borrowing money from the real estate owner until the purchase price is paid in full. Land contracts typically work where a balloon payment, or lump sum, comes at the end of the repayment period after the plan is agreed upon between the two parties.
2. **Lease to Own:** A form of agreement under which renters pay sellers an option fee at an agreed-upon purchase price that gives the renter the exclusive lease option to purchase the property at a later date.
3. **Assumable Mortgage:** A type of home financing in which buyers are given the opportunity to purchase a home by assuming responsibility for and taking over the seller's current mortgage.

7. Trust Deed/Wrap Around Mortgage

How it Works

An AITD, or All Inclusive Trust Deed, is a form of secondary financing for the purchase of real property. An AITD is a new deed of trust that includes the balance due on the existing note plus the additional loan amount for the purchase; also known as a wrap-around mortgage.

1. Under an AITD, the buyer makes one large payment. The recipient of the payment, usually either the seller or a lender, splits the payment up. Part of it goes to the lender on the original mortgage, and the rest goes back to the seller as the payment on the new mortgage.

Value to Sellers

AITDs could expand the buyer pool because sellers can sell the home to buyers that may not have otherwise qualified for a home loan for the full purchase amount. The seller benefits from the interest they are financing and the difference between the interest paid to the lender and what the seller collects.

Value to Buyers

An AITD saves the buyers from having to apply for a traditional mortgage. By being added to the Deed, the principal of the buyer's loan includes the original loan already attached to the Deed. Since the buyer is purchasing the home directly from the seller, they can negotiate favorable terms with no third-party lender fees.

Example:

The seller agrees to sell the property for $250,000.

The buyer pays 10% down and takes a loan at 8% for the difference of $225,000.

The seller still owes $100,000 at 6%.

The seller makes a profit on the difference in interest paid by the buyer and the original loan payment.

WARNING: Please consult tax professionals and real estate attorneys to understand the tax and financial implications of an AITD mortgage before moving forward. Most loans have a "due on sale" clause and this is in no way implying violation of that clause.

8. Homebuyer Assistance Programs

How it Works

Across the United States there are more than 2,200 homebuyer assistance programs that can help qualifying individuals purchase eligible properties. There are three common types of homebuyer assistance programs:

1. **Down Payment Assistance Programs (DPAs):** These come in two typical forms: the DPA grant and second mortgage programs. Second mortgage DPAs vary in their payback provisions from forgivable second mortgages to repayable DPAs that accrue interest. DPA grants can be applied to the down payment or the closing costs depending on the program
2. **Affordable First Mortgage Programs:** These are programs that are often paired with DPAs and subsidize the interest rate for qualifying buyers seeking to purchase eligible properties.
3. **Mortgage Credit Certificates:** These are annual federal income tax credits designed to help first-time homebuyers offset up to $2,000 of their mortgage interest per year depending on the state or local jurisdiction issuing the certificate.

Find Federal programs on the Official Guide to Government Information and Services:
https://www.usa.gov/buying-home

In addition to Federal assistance programs, there are also state and local resources available. To find more information on state and local programs:

1. Contact your state housing finance agency: https://www.ncsha.org/housing-help
2. Contact your state HUD office: https://www.hud.gov/topics/rental_assistance/local

These programs are offered through lenders, so contact your lender partners for more information for more information about homebuyer assistance programs.

STEP 4: Understand Mortgage Hacks for Homeowners

Build your value to clients by learning tools homeowners can use to save money (short or long term) on the mortgage they have.

1. Early Payoff Hacks
2. HELOC
3. Remove PMI
4. Get Rid of the Escrow Account
5. House-Hacking
6. Refinance to a Shorter Term Mortgage
7. Make Payments with a Cashback Credit Card

1. Early Payoff

There are several early payoff hacks that homeowners can take advantage of:

1. Make 1 extra loan payment each year

By making one extra payment per year, a homeowner can reduce the amount of interest they will pay over the life of the loan and the duration of the loan. In this example, the monthly payment is $3,160, so by making 1 extra monthly payment of $3,160, the mortgage will be paid off six years ahead of schedule and net over $156,000 in savings.

Tip: By making the extra payment in January, you are hacking the total number of days the mortgage is collected on.

Using the following terms:
Mortgage Term - 30-year Interest Rate - 7% Loan amount - $475,000 Monthly payment - $3,160

	30-year Loan	1 Extra Payment
Monthly Payment	$3,160	$3,160
Principal & Interest paid annually	$37,920	$41,080
Total Interest Paid	$662,667	$506,644
Duration of Loan	30 years	24 years
Net Savings	**$0**	**$156,023**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

2. Pay bi-monthly instead of monthly

By paying monthly, the borrower pays a total of $3,160 per month. With a biweekly plan, they will pay $1,580 every two weeks. By switching to biweekly payments, the borrower will pay $493,804 in interest and will shorten the repayment period to just 24 years. The net savings would be $168,863 and six years off the mortgage.

Using the following terms:

Mortgage Term - 30-year Interest Rate - 7% Loan amount - $475,000 Monthly payment - $3,160

	Monthly Payments	**Bi-Monthly Payments**
Payment Amount	$3,160	$1,580
Total Interest Paid over life of loan	$662,667	$493,804
Duration of Loan	30 years	24 years
Net Savings	**$0**	**$168,863**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

3. Round up the payment

By increasing the monthly payment to a round number, a borrower can save money on the interest paid over the life of the loan and shorten the duration of the term of the loan. The precise amount of money and time saved will depend on the amount of rounding.

By rounding up a monthly payment of $3,160 to $3,200 every month, $32,483 will be saved in interest and the duration of the loan will decrease by roughly 2 years.

Using the following terms:

Mortgage Term - 30-year Interest Rate - 7% Loan amount - $475,000 Monthly payment - $3,160

	Monthly Payment	**Round Up Payment**
Monthly Payment	$3,160	$3,200
Amount paid Annually	$37,920	$38,400
Total Interest Paid	$662,667	$630,184
Duration of Loan	30 years	28.8
Net Savings	**$0**	**$32,483**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

4. Dollar-a-month Plan

Each month, increase the payment by $1. $900 the first month, $901 the second month, and so on. This could reduce the term of the mortgage by eight years.

5. Use “surprise money” or bonuses to make extra payments

Use unexpected money to help pay down loans. This is the easiest way to pay down debt, including a mortgage more quickly. More than likely this money is not accounted for in a monthly or yearly budget, so it’s easier to use in this scenario.

**Beware of prepayment penalties. Each lender may have different rules.*

2. HELOC

A **Home Equity Line of Credit**, also known as a HELOC, is a line of credit secured by the home that gives the borrower a revolving credit line. A HELOC often has a lower interest rate than some other common types of loans, and the interest may be tax deductible. Much like a credit card, you can draw on the HELOC, pay it off, and draw on it again. There are several ways a homeowner could benefit from using a HELOC:

1. Use the equity from the home without refinancing.
2. Use the equity for a down payment on a new home while keeping the current home.
3. Use for large expenses or to consolidate higher-interest rate debt on other loans such as credit cards.
4. The additional line of credit may increase their credit score.

3. Remove PMI

Private Mortgage Insurance (PMI) is insurance that protects the lender in case an owner should default on their home. PMI is required for buyers who get a conventional mortgage and make a down payment of less than 20%. Once the homeowner has an equity position of more than 20% the PMI can be removed with lender approval. Upon request, lenders will do a home valuation to determine if the PMI can be removed.

The cost of PMI for a conventional home loan averages 0.58% to 1.86% of the original loan amount per year.

If the borrower has an FHA loan, they can refinance into a Conventional loan once they've gained enough equity to help get rid of the PMI.

4. Get rid of the Escrow Account

An escrow account is an account that is used to collect annual expenses like property taxes and homeowners insurance on a monthly basis. Banks often mandate that borrowers have an escrow account at closing so that they know that the borrower has the funds to pay their property taxes when they are due. However, after a period of time of perfect payment history many banks will allow the borrower to stop escrowing. At that moment the monthly payment goes down and although the borrower is still responsible for making the tax and insurance payments at the end of the year.

If the borrower is comfortable budgeting for taxes and insurance, they can elect to not have an escrow account upon closing thus immediately making their monthly payments lower.

5. Live in the Investment Property

AKA "house-hacking." By purchasing a multi-unit property, the borrower can live in one unit while renting out the rest. The renters could help pay down the mortgage and contribute to maintenance costs.

6. Refinance to a Shorter Term Mortgage

If the borrower is able to afford higher monthly payments, they can refinance their 30-year mortgage to a 15-year mortgage which helps them pay off their mortgage faster.

7. Make Payments with a Credit Card

Most lenders do not accept credit cards for making mortgage payments because they think that more consumer debt will result in higher mortgage defaults. However, some lenders are now accepting PayPal and a borrower can set up a PayPal account, link it to their credit card, and make their mortgage payment from there allowing them to earn the cash back or the points which are often redeemable for cash with certain credit cards. If the borrower uses the cash back gained, they could help pay down the loan faster! While rare, it is definitely worth asking the lender if this is acceptable.

STEP 5: Know the Mortgage Products your Lenders offer

Knowing all of the Mortgage products that your lenders offer goes hand in hand with understanding the market of the moment.

Both assist you in being the best fiduciary for your clients.

Not all lenders are created equal so knowing the products, and personalities, of your preferred lenders will show your clients that you know and trust who you’re recommending them to work with. Your partners in business not only need to work well with you, but also with the clients you're referring to them to ensure that they have a positive experience and refer you both business in the future.

STEP 6: Market and Advertise Products and Hacks

Now that you understand the Mortgage Product Hacks, it's time to advertise them. This is an easy opportunity to reach new customers.

There are 2 simple ways to do that:

1. Post to Social Media using Tech Play #19
    1. Partner with your lender to post about Mortgage Products the lender offers
    2. Add the Hacks into your regular social media post schedule
2. Run paid Social Media ads using Tech Play #20
    1. Partner with your lender to run ads about the Mortgage Products they offer
    2. Run paid ads with a "Learn More" MOFIR about any of the Hacks

STEP 7: Market Mortgage Products and Hacks to your Database

Educate your database on ways to save money and pay down their mortgages faster. This will keep you top of mind when they are making their next home selling or buying decision.

The easiest way to incorporate these Hacks into your business is through your 36 Touch Plan.

# of Touches	Description of Contacts
12	A combination of twelve mailings, letters, cards, emails, or drop-offs (which might include your business card) and may be one of the following: letter of introduction, your personal brochure, market reports, Just Sold/Just Listed cards, your personal newsletter, recipe cards, property alerts, real estate news or articles, community calendars, invitations, service directories, promotional items, etc.
8	Thank You or Thinking of You cards
4	Telephone Calls
4	Personal Observance Cards (birthdays, anniversaries, Mother's Day, Father's Day, graduation, anniversary of their home purchase, etc.)
4	Holidays (Thanksgiving, Fourth of July, etc.)
4	Client events
36 Touches Total	Every single touch should have a quick reminder and instructions on how to give you referral business and identify the benefits of working with you.

When sending emails, be sure to comply with all applicable laws (including the CAN-SPAM Act)

CASE STUDIES

Consider each of these mortgage hacks as individual Lego pieces. When viewed as an individual piece it may appear small or insignificant but when connecting these pieces together, they become very powerful. When these hacks are combined, the conversation moves to total monthly payment, total interest paid, and total loan term. Most people innocently only focus on the cost of the monthly payment, but not the total cost of the loan over time. The total savings can be shocking!

CASE STUDY # 1:

A combination of a 3 point interest rate buydown and 1 extra payment every year when compared to a 30-year mortgage

	30-year Mortgage		3 points	3 Points + 1 Extra Payment Every Year	=	Total Savings over life of loan	Total Savings equivalent to a 30-year Mortgage at:
Purchase Price	$500,000		$500,000	$500,000			$500,000
Down Payment	5%		5%	5%			5%
Quoted Interest Rate	7%		7%	7%			5.1%
Interest Rate w/buydown	7%		6.25%	6.25%			N/A
Monthly Payment	$3,160		$2,925	$2,925		($3,160-$2,925 x 12 x 24.5) = **$69,090**	N/A
Total Interest over life of loan	$662,667		$577,876	$455,519		($662,667-$455,519) = **$207,148**	$453,444
****Buydown Cost to Seller**	N/A		**$14,250**	N/A		N/A	N/A

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.
**The buydown can be paid by the buyer, seller, or lender.

TOTAL INTEREST SAVINGS + TOTAL MONTHLY PAYMENT SAVINGS = $276,238
AND
THE DURATION OF THE LOAN DECREASES BY ROUGHLY 5.5 YEARS TO 24.5 YEARS

To put it into perspective, this would almost be equivalent to a buyer locking in a 5.1% interest rate with a 30-year fixed mortgage.

CASE STUDY # 2:

A combination of a 30-year loan and bonus payment when compared to a 30-year mortgage

In this example, the homeowner makes a one-time extra payment of $20,000 in the second month of the loan.

	30-year Mortgage	30-year Mortgage + Bonus Payment of $20,000	=	Total Savings	Total Savings equivalent to a 30-year Mortgage at:
Purchase Price	$500,000	$500,000			$500,000
Down Payment	5%	5%			5%
Interest Rate	7%	7%			5.9%
Monthly Payment	$3,160	$20,000			N/A
Total Interest over life of loan	$662,667	$540,996		**$121,671**	**$539,263**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

TOTAL SAVINGS OVER LIFE OF LOAN = $121,671
AND
THE DURATION OF THE LOAN DECREASES BY ROUGHLY 4 YEARS TO 26 YEARS

This would almost be equivalent to a buyer locking in a 5.9% interest rate with a 30-year fixed mortgage.

CASE STUDY #3:

A combination of a 15-year loan and round up payment when compared to a 30-year mortgage

In this example, the monthly payment of $4,008 is rounded up to $4,100 increasing the payment by $92 per month and the loan is amortized over 15 years.

	30-year Mortgage		15-year Mortgage	Round Up Payment	=	Total Savings	Total Savings equivalent to a 30-year Mortgage at:
Purchase Price	$500,000		$500,000	$500,000			$500,000
Down Payment	5%		5%	5%			5%
Interest Rate	7%		6%	6%			2.9%
Monthly Payment	$3,160		$4,008	$4,100			N/A
Total Interest over life of loan	$662,667		$246,498	$236,666		(662,667-$236,666) **$426,001**	$236,753

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

TOTAL SAVINGS OVER LIFE OF LOAN = $426,001
AND
THE DURATION OF THE LOAN DECREASES BY 6 MONTHS TO 14.5 YEARS

This would almost be equivalent to a buyer locking in a 2.9% interest rate with a 30-year fixed mortgage.

CASE STUDY # 4:

A combination of a 4 point buydown and bonus payment when compared to a 30-year mortgage

In this example, the seller bought down the rate by 4 points and the borrower pays an additional $500/month on top of their normal payment.

	30-year Mortgage		4 points	4 Points + 1 Extra Payment of $500 Every Month	=	Total Savings over life of loan	Total Savings equivalent to a 30-year Mortgage at:
Purchase Price	$500,000		$500,000	$500,000			$500,000
Down Payment	5%		5%	5%			5%
Quoted Interest Rate	7%		7%	7%			4.1%
Interest Rate w/buydown	7%		6%	6%			N/A
Monthly Payment	$3,160		$2,848	$2,848 + $500			N/A
Total Interest over life of loan	$662,667		$550,231	$354,549		($662,667-$354,549) = **$308,118**	$351,270
****Buydown Cost to Seller**	N/A		**$19,000**	N/A		N/A	N/A

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.
**The buydown can be paid by the buyer, seller, or lender.

TOTAL SAVINGS OVER LIFE OF LOAN = $308,118
AND
THE DURATION OF THE LOAN DECREASES BY ROUGHLY 9 YEARS TO 21 YEARS

This would almost be equivalent to a buyer locking in a 4.1% interest rate with a 30-year fixed mortgage.

CASE STUDY # 5:

A 15-year mortgage compared to a 30-year mortgage

In this example, the 15-year loan is at a 6% interest rate and the 30-year loan is at a 3.5% interest rate.

	30-year Mortgage		15-year Mortgage	=	Total Savings over life of loan
Purchase Price	$500,000		$500,000		
Down Payment	5%		5%		
Interest Rate	3.5%		6%		
Monthly Payment	$2,133		$4,008		
Total Interest over life of loan	$292,866		$246,498		**$46,368**

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.

TOTAL SAVINGS OVER LIFE OF LOAN = $46,368

The 30-year mortgage at 3.5% is actually $46,368 more expensive over the life of the loan than a 15-year mortgage at 6%!

CASE STUDY # 6:

A **30-year mortgage** with a **3-2-1 buydown** and a no-cost refinance to a **30-year mortgage** in year 4 with a 5% interest rate.

	30-year Mortgage		3-2-1 Seller Buydown Year 1	3-2-1 Seller Buydown Year 2	3-2-1 Seller Buydown Year 3	3-2-1 Buydown + Refinance to a 30-year Mortgage at 5%		Total Savings equivalent to a 30-year Mortgage at:
Purchase Price	$500,000		$500,000	$500,000	$500,000	N/A		$500,000
Down Payment	5%		5%	5%	5%	N/A		5%
Principal	$475,000		$466,635	$459,199	$452,392	$452,392		4.1%
Interest Rate	7%		4%	5%	6%	5%		5.47%
Total Monthly Payment	$3,160		$2,268	$2,550	$2,848	$2,511		N/A
Monthly Savings	**$0**		**$892**	**$610**	**$312**	**$337**		N/A
Total Interest over life of loan	**$662,667**		N/A	N/A	**$596,167**	**$491,257**		**$491,257**
****Buydown Cost to Seller**	N/A		**$27,781**	N/A	N/A	N/A		N/A

*Not including taxes, insurance, or private mortgage insurance (PMI). Figures are rounded to the nearest whole dollar.
**The buydown can be paid by the buyer, seller, or lender.

TOTAL INTEREST SAVINGS WITH BUYDOWN + REFINANCE = $171,410

This would be equivalent to a buyer locking in a 5.47% interest rate with a 30-year fixed mortgage.

“Average is doing only what you want to do. Success is doing what you must do.”

Gary Keller and Jay Papasan – SHIFT

“We are what we decide we will be, and we do what we decide we will do. We become our choices.”

Gary Keller and Jay Papasan – SHIFT

To become the best version of your fiduciary self you must master the mortgage market of the moment. You must provide options and perspective to buyers and sellers to help them work toward uncovering the perfect answers to their unique questions.

Use these mortgage hacks as a beginning and commit to continuing to be your customers' local economist of choice!